

EXH. #18

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**The Beer Institute**

Proposed Hops Marketing Order

United States Department of Agriculture  
Agricultural Marketing Service  
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Portland, Oregon

EX 18

The Beer Institute is a trade association representing domestic and international brewers as well as suppliers of agricultural and other materials to the brewing industry. Our members produce well over 90% of the beer sold in the United States and they have a direct interest in the hops market, as virtually all hops grown in the US are used by brewers. Beer is one of the few consumer products still primarily made in the USA. 90% of the beer sold in the United States is produced here and 96% is produced in North America. Few other finished product categories can make that claim.

Beer is also a mature product category in the United States. Over the last 30 years, our industry has been very stable, with per capita consumption remaining about the same and increases or declines in volume under two percent in any given year over that period. Profitability of our major members has come from extraordinary efforts to reduce costs and to gain efficiencies at all stages of the production process. Substantial brewer consolidation has occurred in recent years. In our own organization, we had five major brewers when I joined in 1994, and now we have three, so our members have not been immune to the challenges of the free market, and we can certainly empathize with the situation facing our fellow industry members who cultivate hops.

The brewing industry has a long history of working with US hops growers to expand the variety and quality of hops used in the brewing process.

Cultivation of hops for use in brewing dates back over 1000 years in Europe, and early German and Dutch settlers grew hops shortly after their arrival in America. Larger scale production began in the early 1800's. Current hops production is centered in the Northwest, as indicated by the pending request from growers in Washington, Oregon, Idaho, and California. International competition is intense with the US producing approximately 25% of the world wide crop and substantial production in Europe, Asia, Africa, and Australia.

The proposed marketing order presupposes that an administrative system can be developed to deal with structural economic forces that have resulted in an oversupply of hops. Any such effort guided by the federal government is contrary to the current administration's recently stated agricultural policy that recognizes that "the marketplace is the best guide for allocating resources and provides the most objective reward for efficiency and good management."<sup>1</sup>

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<sup>1</sup> United States Department of Agriculture, Food and Agricultural Policy—Taking Stock for the New Century, Government Printing Office, 2003, p.51.

The current business and social situation confronting American farmers is aptly described as a “competitive, consumer-driven, and rapidly changing...highly inter-dependent, blending the efforts of many industries to add value to farm sector products.”<sup>2</sup> As the sole consumer of hops, brewers are primarily responsible for adding value to the crops of hops growers and other agricultural producers.

The future of the US hops industry is tied directly to many factors beyond the reach of agricultural marketing orders, including growth and technological advances in the worldwide brewing industry, international competition and crop yields, and exchange rates. Prior US experience with hops marketing orders shows that they have not provided effective long-term relief to American growers.

Since 1938, the Department of Agriculture (USDA) has administered three different marketing orders that applied to growers in the same region that would be covered under the proposed order now being considered. The first hops marketing order remained in place through 1944. A second marketing order was implemented in 1949, and lasted until 1952. The third hops marketing order was in force between 1966 and 1986.

All three failed to help US farmers. Artificial constraints on acreage, quota systems, and purchase pool arrangements did not adequately anticipate the effects of external market forces in the past, and they will not be able to do so in the current commercial environment.

Beyond the lessons of history and international market forces beyond our control, a fundamental goal of marketing orders in US policy would be thwarted by imposition of a marketing order at this time: the maintenance of high-quality produce. Brewing is an art form that combines centuries of tradition with modern methods of production and quality control.

US and international brewers have established their respective reputations through decades of effort and attention to detail. A marketing order could hurt growers who have worked to meet the standards of specific brewers or to develop new varieties to meet the demands of our nation’s craft breweries, which often produce unique seasonal products. A new marketing order would set back the efforts of growers to meet basic customer needs, such as quality and variety.

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<sup>2</sup> Id., p. 58.

Earlier this year, the USDA requested alternatives to the proposed hops marketing order. At that time, and again for the hearing record today, the Beer Institute respectfully submits that no form of marketing order will alleviate current marketplace conditions but would only serve to disrupt and damage the industry, and that the Department should not establish a new order.

We would be pleased to provide the Department with any additional background information on the brewing industry that will aid in your decision-making process, and I appreciate the opportunity to appear today.